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**AGENCY OVERVIEW****190 Retirement and Investment Office**

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**Date:** 01/13/2011**Time:** 11:10:16**Statutory Authority**

ND Constitution Article IV, Section 13; North Dakota Century Code Chapters, 15-39.1, 21-10 and 54-52.

**Agency Description**

The Retirement and Investment Office (RIO) is an agency of the State of North Dakota. The agency was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of two important long-standing state programs - the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the State Investment Board (SIB). TFFR is a qualified defined benefit public pension plan. The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. TFFR serves nearly 10,000 teachers from 231 employer groups and pays benefits to over 6,500 retirees and beneficiaries. High quality member services and outreach programs are offered to members and employers as part of the continuing effort to keep them informed about the retirement program. The SIB is responsible for setting policies and procedures guiding the investment of approximately \$5.000 billion in assets for eight pension funds and 17 other insurance-type funds.

**Agency Mission Statement**

The Retirement and Investment Office (RIO) exists in order that:

1. State Investment Board (SIB) clients receive cost-effective investment services directed at meeting their written financial goals under the Prudent Investor Rule.
2. SIB clients receive investment returns consistent with their written investment policies and market variables.
3. Potential SIB clients have access to information regarding the investment services provided by the SIB.
4. Teachers' Fund for Retirement (TFFR) benefit recipients receive their retirement benefits in a cost effective and timely manner.
5. TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.
6. SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office.

**Agency Performance Measures**

No performance measures have been created.

**Major Accomplishments**

1. Received the GFOA Certificate of Achievement for Financial Reporting for its annual financial report for the fiscal year ended June 30, 2009. This was the twelfth time RIO received this award.
2. Successfully implemented the administration of a one-time benefit payment for TFFR retirees in December 2009 per legislation.

**Future Critical Issues**

1. Earn sufficient investment returns over the long term to meet pension and insurance trust fund client investment objectives in a risk controlled manner.
2. Restore financial health of TFFR plan and adequately fund promised benefits for ND educators.
3. Impact of changing demographics on TFFR plan - ratio of active to retired members continues to decline due to fewer students, fewer active teachers, and increasing numbers of retirees who will live longer.
4. Impact of potential federal legislation, Internal Revenue Code requirements, and accounting standards for pension plans could require plan modifications to remain in compliance.
5. Enhance and maintain adequate technology levels for accurate and efficient pension administration and services to members and employers.
6. Maintain a low level of staff turnover.

**REQUEST SUMMARY**

190 Retirement and Investment Office

Bill#: SB2022

Date: 01/13/2011

Time: 11:10:16

Biennium: 2011-2013

Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
<b>By Major Program</b>					
Teachers Fund for Retirement	2,139,437	2,466,332	14,133	2,480,465	0
Investment Program	947,001	1,239,318	35,420	1,274,738	309,598
<b>Total Major Program</b>	<b>3,086,438</b>	<b>3,705,650</b>	<b>49,553</b>	<b>3,755,203</b>	<b>309,598</b>
<b>By Line Item</b>					
Salaries and Wages	2,215,081	2,674,080	59,983	2,734,063	300,898
Operating Expenses	859,916	949,570	(10,430)	939,140	8,700
Contingency	11,441	82,000	0	82,000	0
<b>Total Line Items</b>	<b>3,086,438</b>	<b>3,705,650</b>	<b>49,553</b>	<b>3,755,203</b>	<b>309,598</b>
<b>By Funding Source</b>					
General Fund					
Federal Funds					
Special Funds	3,086,438	3,705,650	49,553	3,755,203	309,598
<b>Total Funding Source</b>	<b>3,086,438</b>	<b>3,705,650</b>	<b>49,553</b>	<b>3,755,203</b>	<b>309,598</b>
<b>Total FTE</b>	<b>17.00</b>	<b>17.00</b>	<b>0.00</b>	<b>17.00</b>	<b>1.00</b>

**REQUEST DETAIL**

190 Retirement and Investment Office

Bill#: SB2022

Date: 01/13/2011

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Biennium: 2011-2013

Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
<b>Salaries and Wages</b>					
Salaries - Permanent	1,705,134	1,896,236	154,648	2,050,884	241,500
Temporary Salaries	0	110,274	(102,274)	8,000	0
Fringe Benefits	509,947	667,570	7,609	675,179	59,398
<b>Total</b>	<b>2,215,081</b>	<b>2,674,080</b>	<b>59,983</b>	<b>2,734,063</b>	<b>300,898</b>

**Salaries and Wages**

General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	2,215,081	2,674,080	59,983	2,734,063	300,898
<b>Total</b>	<b>2,215,081</b>	<b>2,674,080</b>	<b>59,983</b>	<b>2,734,063</b>	<b>300,898</b>

**Operating Expenses**

Travel	77,470	134,445	(7,206)	127,239	0
Supplies - IT Software	6,686	5,000	(500)	4,500	0
Supply/Material-Professional	2,658	3,200	(200)	3,000	0
Miscellaneous Supplies	13,414	5,171	0	5,171	0
Office Supplies	7,375	10,270	(810)	9,460	0
Postage	71,551	84,724	5,986	90,710	0
Printing	32,469	27,719	(416)	27,303	0
IT Equip Under \$5,000	22,408	14,000	(12,400)	1,600	2,500
Other Equip Under \$5,000	0	0	0	0	3,500
Insurance	2,747	1,804	623	2,427	0
Rentals/Leases-Equip & Other	1,594	0	0	0	0
Rentals/Leases - Bldg/Land	149,337	151,098	4,538	155,636	0
Repairs	732	1,800	(800)	1,000	0
IT - Data Processing	140,670	164,929	25,895	190,824	1,900
IT - Communications	21,798	22,200	2,520	24,720	800
IT Contractual Svcs and Rprs	218,007	225,925	(26,660)	199,265	0
Professional Development	42,357	47,330	(1,310)	46,020	0
Operating Fees and Services	26,057	28,495	(190)	28,305	0
Fees - Professional Services	22,586	21,460	500	21,960	0
<b>Total</b>	<b>859,916</b>	<b>949,570</b>	<b>(10,430)</b>	<b>939,140</b>	<b>8,700</b>

**Operating Expenses**

General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	859,916	949,570	(10,430)	939,140	8,700
<b>Total</b>	<b>859,916</b>	<b>949,570</b>	<b>(10,430)</b>	<b>939,140</b>	<b>8,700</b>

**REQUEST DETAIL**

190 Retirement and Investment Office

Bill#: SB2022

Date: 01/13/2011

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Biennium: 2011-2013

Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
<b>Contingency</b>					
Equipment Over \$5000	11,441	0	0	0	0
Special Line Other	0	82,000	0	82,000	0
<b>Total</b>	<b>11,441</b>	<b>82,000</b>	<b>0</b>	<b>82,000</b>	<b>0</b>
<b>Contingency</b>					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	11,441	82,000	0	82,000	0
<b>Total</b>	<b>11,441</b>	<b>82,000</b>	<b>0</b>	<b>82,000</b>	<b>0</b>
<b>Funding Sources</b>					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	3,086,438	3,705,650	49,553	3,755,203	309,598
<b>Total Funding Sources</b>	<b>3,086,438</b>	<b>3,705,650</b>	<b>49,553</b>	<b>3,755,203</b>	<b>309,598</b>

**CHANGE PACKAGE SUMMARY**

190 Retirement and Investment Office

Biennium: 2011-2013

Bill#: SB2022

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Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
<b><u>Base Budget Changes</u></b>						
<b>One Time Budget Changes</b>						
A-E 1 One-time		0.00	0	0	(25,000)	(25,000)
<b>Total One Time Budget Changes</b>		<b>0.00</b>	<b>0</b>	<b>0</b>	<b>(25,000)</b>	<b>(25,000)</b>
<b>Ongoing Budget Changes</b>						
A-A 1 Operating		0.00	0	0	14,570	14,570
Base Payroll Change		0.00	0	0	59,983	59,983
<b>Total Ongoing Budget Changes</b>		<b>0.00</b>	<b>0</b>	<b>0</b>	<b>74,553</b>	<b>74,553</b>
<b>Total Base Budget Changes</b>		<b>0.00</b>	<b>0</b>	<b>0</b>	<b>49,553</b>	<b>49,553</b>
<b><u>Optional Budget Changes</u></b>						
<b>Ongoing Optional Changes</b>						
A-C 1 Deputy Investment Officer FTE	1	1.00	0	0	309,598	309,598
<b>Total Ongoing Optional Changes</b>		<b>1.00</b>	<b>0</b>	<b>0</b>	<b>309,598</b>	<b>309,598</b>
<b>Total Optional Budget Changes</b>		<b>1.00</b>	<b>0</b>	<b>0</b>	<b>309,598</b>	<b>309,598</b>

**BUDGET CHANGES NARRATIVE****190 Retirement and Investment Office****Bill#: SB2022****Date:** 01/13/2011**Time:** 11:10:16

<b>Change Group:</b> A	<b>Change Type:</b> A	<b>Change No:</b> 1	<b>Priority:</b> 1
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## Operating

The Special Funds budget request for the Retirement and Investment Office (RIO) is comprised of two main categories; salaries and operating expenses. It was the goal of RIO management to comply with the Governor's request to General Fund agencies to submit a hold-even budget for the 2011-13 biennium. Management reviewed all current program costs, and made adjustments wherever possible. It was determined that current staffing/FTEs was appropriate and so the only other area available to cut costs fell under operating expenses. Overall, operating expenses are increasing from our 2009-11 base budget request by \$14,570. However, they are decreasing by \$10,430 from our final approved 2009-11 budget which contained a \$25,000 one-time appropriation for implementation costs associated with TFFR legislation. Some of the more significant increases and decreases by line are detailed below:

Data Processing - increased by \$25,895 or 15.7% over previous biennium: The main reason for this increase is additional Websphere Application Hosting costs for the TFFR member self-service website. We expect to have this service up and running by the end of the current biennium and the cost for this service from ITD will be approximately \$17,880 for the biennium. The member self-service website will allow TFFR members to access their account information and benefit payment information on-line, in a secure environment. The remaining increase in this line item result from increased charges from ITD for currently utilized services.

IT Contract Services - decreased by \$26,660 or 11.8% from previous biennium: The majority of this line item is used to pay for continuing maintenance and support of the retirement administration software from CPAS. By the end of the current biennium, we anticipate to have modified and enhanced the program sufficiently that we should be able to decrease the amount of service hours required from the vendor for such purposes. Based on that, we estimated that we could reduce the contract for services by \$30,000. It is important to note here, however, that because there is uncertainty going into the 2011 legislative session, it may be necessary to request additional funding in this area if significant changes are made to the TFFR plan that would require major changes to the software.

IT Equipment < \$5,000 - decreased by \$12,400 or 88.6% from previous biennium: This decrease results from the fact that we do not feel we need to update our office PCs during the 2011-13 biennium. Our normal replacement schedule is four years, which would fall in fiscal year 2013, but the current configuration of PCs will be adequate until the 2013-15 biennium.

Travel - decreased by \$7,206 or 5.4% from previous biennium: Based on previous actual experience, we found that staff and board members were not utilizing the travel budget as estimated, therefore we have reduced the total number of trips for the biennium to be more consistent with actual usage.

Postage - increased by \$5,986 or 7.1% based on known and anticipated postal rate increases.

Lease of Office Space - increased by \$4,538 or 3.0% based on estimated lease rate increases from our landlord.

Professional Development - decreased by \$1,310 or 2.8% from previous biennium based on actual experience similar to travel.

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 1	<b>Priority:</b> 1
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## Deputy Investment Officer FTE

This request is for a new FTE for a position of Deputy Chief Investment Officer for the State Investment Board (SIB) program. The position is being requested as a result of a performance audit conducted in July/August 2010 by Clifton Gunderson LLP. The final performance audit report contained the following recommendation.

"Review of the RIO organization chart does not include a high level position such as a Deputy CIO. We recommend the SIB consider such a position to perform duties such as:

1. Continuity of the operation of RIO in the event the CIO position is vacated.

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2. Provide enhanced and formal investment manager compliance reports to the SIB on a regular basis.
3. Assist the CIO in the initial due diligence and screening of prospective new investments.
4. Assist the CIO in the continuous monitoring of the investment managers and conducting research on new methodology and portfolio management."

This request is for salaries and benefits for one new FTE plus operating expenses associated with this position. These expenses include furniture and IT equipment and software, ITD data processing connection charges and telecommunications fees.

<b>Change Group:</b> A	<b>Change Type:</b> E	<b>Change No:</b> 1	<b>Priority:</b> 1
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One-time

One-time funding of \$25,000 was included in our 2009-11 operating line for implementation costs associated with the one-time TFFR benefit payment. Actual costs incurred were \$3,135 for postage costs associated with the notifications that were sent to the retired members describing their one-time benefit payments. Actual costs associated with programming for the calculation of the one-time benefit payments fell within the maintenance hours already under contract with the software vendor, and budgeted in our base budget. This one-time funding has been removed from the 2011-13 budget request.

<b>Change Group:</b> R	<b>Change Type:</b> A	<b>Change No:</b> 1	<b>Priority:</b> 1
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Deputy Chief Investment Officer

Provides funding for 1.00 FTE, Deputy Chief Investment Officer. The performance audit recommended the addition of this position to provide assistance to the chief investment officer with monitoring, reporting and portfolio management as well as provide continuity of operations.